

## The Dodd-Frank Wall Street Reform and Consumer Protection Act Benefits African Americans

Too many responsible African Americans have paid the price for an outdated regulatory system that left our financial system vulnerable to collapse and left families without adequate protections. In the summer of 2009, the Obama Administration put forward a legislative proposal crafted to rein in excessive risk on Wall Street and preserve economic opportunity on Main Street. A year later, the President signed into law a bill aligned to a remarkable degree with that original proposal. This comprehensive financial reform, which put in place the strongest consumer financial protections in history, included the creation of a new, dedicated Consumer Financial Protection Bureau (CFPB).

The CFPB, an independent entity within the Federal Reserve, will have one mission: to protect consumers by promoting transparency and consumer choice and preventing abusive and deceptive practices. It will have broad authority to write and enforce new consumer financial protection rules. The CFPB will use these authorities to promote financial stability and protect consumers – including African Americans – from the unfair practices that contributed to the financial crisis.

### African American Families and the Financial Crisis

- **In 2005 and 2006, the height of the subprime lending boom, more than 53% of loans made to African American borrowers to purchase homes and more than 49% of refinancings by African Americans were higher priced loans.** [Federal Reserve, "[Higher Priced Lending and the 2005 HMDA Data](#)" (September 2006); Federal Reserve, "[The 2006 HMDA Data](#)" (December 2007)]
- **African-American borrowers were over 3 times more likely to receive higher priced loans to purchase homes and over 2 times more likely to receive higher priced refinancing loans than non-Hispanic whites in 2005 and 2006.** [Federal Reserve, "[Higher Priced Lending and the 2005 HMDA Data](#)" (September 2006); Federal Reserve, "[The 2006 HMDA Data](#)" (December 2007)]
- **Borrowers who have subprime loans, including African Americans, have come under severe stress during the recent financial crisis and are at high risk of foreclosure.** 48.5% of outstanding subprime loans made in 2005 and 57.2% of such loans made in 2006 are in foreclosure or no payment has been received for 60 days or more. [McDash Online Core Database data (February 2010); Treasury analysis.]
- **Growth in African American homeownership is reported to have reversed.** Based on an analysis of Census data, the Pew Hispanic Center reported that "[b]lack householders raised their homeownership rate from 41.9% in 1995 to 49.4% in 2004. By 2008, the black homeownership rate had decreased to 47.5%" — still significantly short of the 74.9% homeownership rate for whites in 2008. [Pew Hispanic Center, "[Through Boom and Bust: Minorities, Immigrants and Homeownership](#)," (May 12, 2009)]

### African American Families Deserve Clear Rules and Strong Enforcement

#### *Credit Cards*

- **About half (48%) of African American and other minority households carry a credit card balance, with a median balance of approximately \$2,000.** [Federal Reserve, "[Changes in U.S. Family Finances from 2004 to 2007: Evidence from the Survey of Consumer Finances](#)," (February 2009) ("SCF")]

#### *Mortgages*

- **40% of African American and other minority households have mortgages and other debt secured by residential property, such as home equity lines of credit.** The median amount owed is approximately \$113,000. [[SCF](#)]

- **The piles of forms needed for a regular mortgage can be overwhelming**, and many brokers have taken advantage of that confusion to give borrowers loans they didn't need or couldn't afford.

#### **Student Loans**

- **36% of African Americans have student and other education loans.** [\[SCF\]](#)

#### **Retirement Investments**

- **African American and other minority households invest in the financial markets, including for retirement.** 39% of African American and other minority households have retirement accounts with a median amount of approximately \$25,000. [\[SCF\]](#)

#### **Bank Accounts**

- **16% of African American and other minority households do not have bank accounts, compared with only 4% of non-Hispanic white households.** In a survey conducted by the Federal Reserve, a significant fraction of households without bank accounts said that they did not have a checking account because they did not like dealing with banks (25%) or because the service charges were too high (12%). Families without bank accounts are often forced to turn to costly alternative financial services, such as check cashing, which, until now, have lacked a federal supervisor to enforce fair rules of the road for consumers. [\[SCF\]](#)
- **Many households have been automatically enrolled in expensive overdraft programs that** can hit consumers with costly overdraft fees for even the smallest purchases. For example, the FDIC found that the average overdraft charge for a single purchased item—like a \$2 cup of coffee—is \$30 at banks with assets over \$1 billion. [FDIC, "[FDIC Study of Bank Overdraft Programs](#)" (November 2008) at Table IV-3]

#### **Payday Loans**

- **African Americans, among other minorities, are more likely to use payday lending services.** Based on analysis of the 2007 Survey of Consumer Finances, the Center for American Progress reported that "[t]hirty-eight percent of families who had borrowed a payday loan within the last year were nonwhite while just 22 percent of families who did not take out such a loan were nonwhite." [Center for American Progress, "[Who Borrows from Payday Lenders](#)," (March 2009)]

### **The Wall Street Reform and Consumer Protection Act of 2010 Is Beneficial for African Americans**

- **Fair markets for African Americans:** One pillar of the CFPB's mission will be to ensure that markets for consumer financial products and services operate transparently and efficiently to facilitate access for all families, including African American families. The CFPB will enforce fair lending laws that protect African Americans from discriminatory lending practices. The CFPB will also be empowered to focus on improving disclosures and cracking down on abusive practices to make it easier for families to identify and avoid high cost, high risk products that don't meet their needs.
- **For African Americans who want to buy a home:** The CFPB will take steps to consolidate and simplify with plain language two overlapping and sometimes inconsistent federal mortgage forms. The CFPB will, for the first time, provide ongoing federal oversight of both nonbank companies and banks in the mortgage market, and protect borrowers from unfair, deceptive or other illegal mortgage lending practices.
- **For African American families using alternative financial services:** The Wall Street Reform and Consumer Protection Act establishes, for the first time, robust federal supervision and oversight over larger alternative financial service companies, such as check cashers and payday lenders. The CFPB will combat abusive practices that harm consumers, helping families avoid hidden fees and keep more money in their wallets.
- **For African Americans without bank accounts:** The CFPB will be able to rein in practices that may drive some African Americans away from banks—including by stopping banks from enrolling customers in expensive overdraft programs without their consent.

- **For African Americans with credit cards:** The CFPB will prevent evasion of the Credit CARD Act of 2009, which bans arbitrary rate hikes on existing balances and other unfair practices. For African Americans who have used credit cards to get by when times are tight, the law will give them clarity on the interest rates they are charged.
- **For African Americans caught by unexpected overdraft fees:** The CFPB will prevent evasion of new rules that give consumers a real choice as to whether to join expensive overdraft programs so that they are not unknowingly charged unnecessary fees.
- **For African Americans who need to take out loans to cover the costs of higher education:** The CFPB will be able to supervise private student lenders, fight unfair lending practices, and require lenders to follow fair rules of the road and give students the information they need to make smart choices.
- **Empowering African Americans to make smart financial choices by promoting financial education and financial literacy:** The CFPB will promote consumer financial education and financial literacy, with a dedicated office focused on ensuring that the CFPB's expertise and research are used to help raise awareness, and educate and empower consumers to avoid unfair practices and make smart financial choices.
- **Safeguarding African Americans' retirement security, savings and investments:** The Wall Street Reform and Consumer Protection Act strengthens investor protection by empowering the Securities and Exchange Commission (SEC) to:
  - Raise the standards for brokers and investment professionals when giving advice so that brokers and investment professionals have a fiduciary duty and are required to act in the interests of investors, rather than their own; and
  - Require brokers to disclose costs and risk factors to investors prior to selling a product, instead of after it is purchased.

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